

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Village of Manchester	County Washtenaw
Fiscal Year End 06/30/06	Opinion Date 12/15/06	Date Audit Report Submitted to State 12/22/06	

We affirm that:

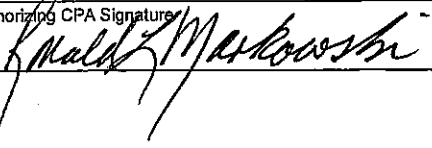
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO Check each applicable box below. (See instructions for further detail.)
- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
 - ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
 - ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 - ☒ ☐ The local unit has adopted a budget for all required funds.
 - ☒ ☐ A public hearing on the budget was held in accordance with State statute.
 - ☐ ☒ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
 - ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 - ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
 - ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
 - ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
 - ☒ ☐ The local unit is free of repeated comments from previous years.
 - ☒ ☐ The audit opinion is UNQUALIFIED.
 - ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
 - ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
 - ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Markowski & Company, CPAs		Telephone Number 517-782-9351	
Street Address 2880 Spring Arbor Road		City Jackson	State MI
Zip 49203			
Authorizing CPA Signature 	Printed Name Ronald L. Markowski	License Number 1101006941	

VILLAGE OF MANCHESTER
AUDITED FINANCIAL STATEMENTS
WITH SUPPLEMENTAL INFORMATION
JUNE 30, 2006

VILLAGE OF MANCHESTER
FINANCIAL STATEMENTS
JUNE 30, 2006

TABLE OF CONTENTS

	<u>PAGE NUMBER</u>
INDEPENDENT AUDITOR'S REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS:	
GOVERNMENT-WIDE STATEMENT OF NET ASSETS	7
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES	8
BALANCE SHEET GOVERNMENTAL FUNDS	9
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO STATEMENT OF NET ASSETS	10
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS	11
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES	12
STATEMENT OF NET ASSETS – PROPRIETARY FUNDS	13
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN NET ASSETS – PROPRIETARY FUNDS	14
PROPRIETARY FUND STATEMENT OF CASH FLOWS	15
STATEMENT OF FIDUCIARY NET ASSETS	16
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS	17
NOTES TO THE FINANCIAL STATEMENTS	18
REQUIRED SUPPLEMENTARY INFORMATION:	
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND	33
BUDGETARY COMPARISON SCHEDULE – MAJOR STREET FUND	38
BUDGETARY COMPARISON SCHEDULE – LOCAL STREET FUND	40
ADDITIONAL INFORMATION:	
COMBINING BALANCE SHEET NON-MAJOR GOVERNMENTAL FUNDS	42
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - NON-MAJOR GOVERNMENTAL FUNDS	43
SCHEDULE OF INDEBTEDNESS	44

MARKOWSKI & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS
2880 SPRING ARBOR ROAD
JACKSON, MICHIGAN 49203
PHONE (517) 782-9351
FAX (517) 782-0599

K. LAVERNE MARKOWSKI, C.P.A.
RONALD L. MARKOWSKI, C.P.A.
DOUGLAS E. ATKINS, C.P.A.

MEMBERS:
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
MICHIGAN ASSOCIATION OF
CERTIFIED PUBLIC ACCOUNTANTS
ESTATE PLANNING COUNCIL
OF SOUTH CENTRAL MICHIGAN

INDEPENDENT AUDITOR'S REPORT

Village Council
Village of Manchester
Washtenaw County, Michigan

We have audited the financial statements of the governmental activities, business-type activities, major funds, and remaining fund information, which collectively comprise the basic financial statements, of the Village of Manchester, Michigan, as of and for the year ended June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, major funds, and remaining fund information of the Village of Manchester at June 30, 2006, and the changes in financial position and cash flows, where applicable, of those activities and funds and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis is not a required part of the basis financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Village Council
Village of Manchester
Washtenaw County, Michigan

Our audit was conducted for the purpose of forming an opinion on the Village's basic financial statements. The accompanying required supplementary information, as described in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Yours truly,

A handwritten signature in cursive script that reads "Markowski & Company".

MARKOWSKI & COMPANY, CPAs
December 15, 2006

Management's Discussion and Analysis

Using this Annual Report

As management of the Village of Manchester, we offer the readers of these financial statements this narrative overview and analysis of the financial activities of the Village of Manchester for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented here.

This annual report consists of a series of financial statements. The Statement of Net Assets and Statement of Activities provide information about the activities of the Village as a whole and present a longer-term view of the Village's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Village's operations in more detail than the government-wide financial statements.

The Village as a Whole

The Village has combined net assets of \$9,354,144. Of this amount, \$4,039,612 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors. An additional \$4,810,641 reflect the Village's investment in capital assets (e.g. land, buildings, machinery and equipment and infrastructures consisting of water and sewer lines and roads and streets); less any related debt used to acquire those assets still outstanding.

The Village's total net assets increased \$122,730 in 2006. Governmental activities net assets increased \$107,260 and Business-Type activities increased \$15,470 respectively.

In a condensed format, the following table shows net assets as of June 30, 2006:

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current Assets	\$ 2,651,285	\$ 2,582,159	\$ 2,205,037	\$ 2,181,934	\$ 4,856,322	\$ 4,764,093
Noncurrent Assets	3,701,241	2,896,355	4,952,115	5,253,084	8,653,356	8,149,439
Total Assets	6,352,526	5,478,514	7,157,152	7,435,018	13,509,678	12,913,532
Current Liabilities	658,478	691,936	347,774	351,110	1,006,252	1,043,046
Long-Term Debt Outstanding	985,000	1,035,000	2,164,282	2,454,282	3,149,282	3,489,282
Total Liabilities	1,643,478	1,726,936	2,512,056	2,805,392	4,155,534	4,532,328
Net Assets						
Invested in Capital Assets -						
Net of Related Debt	2,666,241	1,797,808	2,144,400	1,995,365	4,810,641	3,793,173
Restricted for Debt Service	107,650	103,018	396,241	367,002	503,891	470,020
Unrestricted	1,935,157	1,850,752	2,104,455	2,267,259	4,039,612	4,118,011
Total Net Assets	\$ 4,709,048	\$ 3,751,578	\$ 4,645,096	\$ 4,629,626	\$ 9,354,144	\$ 8,381,204

Management's Discussion and Analysis

In a condensed format, the following table shows the changes of the net assets as of June 30, 2006:

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Program Revenues						
Charges for Services	\$ 177,554	\$ 143,038	\$ 517,427	\$ 519,591	\$ 694,981	\$ 662,629
Operating grants and Contributions	200,803	203,286	-	-	200,803	203,286
Capital grants and Contributions	262,787	1,035,396	253,990	502,535	516,777	1,537,931
General Revenues						
Property Taxes	606,081	613,850	-	-	606,081	613,850
State-Shared Revenues	213,898	216,742	-	-	213,898	216,742
Interest Income	73,975	32,796	84,945	49,208	158,920	82,004
Franchise Fees	20,273	19,832	-	-	20,273	19,832
Other Income	20,114	14,484	9,274	7,793	29,388	22,277
Total Revenues	1,575,485	2,279,424	865,636	1,079,127	2,441,121	3,358,551
Program Expenses						
Legislative	93,452	91,644	-	-	93,452	91,644
General Government	368,511	366,525	-	-	368,511	366,525
Public Safety	389,519	357,793	-	-	389,519	357,793
Public Works	276,980	260,128	-	-	276,980	260,128
Recreational and Cultural	35,113	42,610	-	-	35,113	42,610
Interest on Long Term Debt	60,442	62,963	-	-	60,442	62,963
Depreciation	244,208	135,863	-	-	244,208	135,863
Water and Sewer	-	-	850,166	822,106	850,166	822,106
Total Expenses	1,468,225	1,317,526	850,166	822,106	2,318,391	2,139,632
Change in Net Assets	\$ 107,260	\$ 961,898	\$ 15,470	\$ 257,021	\$ 122,730	\$1,218,919

Government Activities

The Village administration and management has taken actions to reduce expenditures in order to balance its budget. The Village does have room to increase its millage for tax revenues but has chosen not to do so. Property taxes and state shared revenues both remain flat making it more difficult to continue to provide essential services as costs increase. Overall expenditures increased. Public Safety costs continue to increase by 6% annually consuming a larger portion of the annual budget. Public Works cost increased in 2006 as work was done to maintain and improve Village assets. Depreciation expense increased due to GASB 34 requirement that infrastructure be reported retroactively. In 2006 the Village retroactively capitalized roads and streets from 1986 to 2003. These roads and streets are depreciated over their useful lives thus increasing depreciation in the current year. In spite of lower revenues and higher costs the Village was still able to have an increase in net assets of \$107,260.

Business Type Activities

The Village's business-type activities consist of its Water and Sewer funds. During 2006, net assets increased by \$15,470. Operating revenues remain steady as connection charges decreased as new construction slowed during the year. Expenditures increased 3% as costs continue to rise. The Village signed a contract with a neighboring township to run their waste water treatment plant. This will increase the revenues with little to no additional cost to the Village.

Management's Discussion and Analysis

The Village's Funds

The fund financial statements provide a more detailed analysis of the Village's operations, which is focused primarily on the current use of available resources. The Village maintains several funds to help manage money designated for special purposes, as well as to show accountability for certain activities.

The General Fund, the major governmental fund, related to the general governmental activities for the Village, which is financed by property tax levies, by distribution of State Shared revenues, and from fees charged for various municipal activities and services. The General Fund's fund balance increased by \$34,697. Total revenues decreased by \$101,807, however, the decrease was due to a one time sale of Village property in the prior year. When you take that into consideration revenues remained stable. Expenditures increased by \$86,237 primarily from increased costs in public safety of \$31,726 and capital outlays of \$45,550 for sidewalks and architectural fees for a new elevator located at the Village hall.

The Water and Sewer Funds are used to account for business-like activities provided to the Village's residents. The Village charges for water and sewer service and other related goods and services. Net Assets increased \$15,470. Operating revenues increased remained stable as water and sewer fees increased but connection fees decreased. The Village has added additional revenues with the addition of operating a neighboring Townships waste water treatment plant. Operating expenditures in these funds increased by \$38,883 due to increased depreciation of \$17,191 on new infrastructure and other additional operating costs.

The Village maintains several Special Revenue Funds to account for resources set aside for specific purposes as well as Expendable Trust Funds to account for assets held for individuals in a trustee capacity. Principally among these funds are the Major and Local Street funds used to account for Village roads and street activity.

The Major Street Fund's fund balance decreased by \$25,299 as a construction project on Hibbard Street has been started. The Local Street Fund's fund balance decreased by \$60,126 as costs for maintaining local streets were more than State revenues received. The Village levies a municipal street tax in order to maintain the stability of these funds.

General Fund Budgetary Highlights

The original budget adopted for the Village's General Fund projected a \$22,280 decrease in fund balance. As the year progressed, and actual events took place an amended budget was adopted to reflect the changing financial picture.

The final General Fund amended budget projected a \$10,470 increase in fund balance as changes were made as needed.

Administration correctly anticipated flat revenues and state shared revenues while also receiving more rental income and investment income from increasing rates. The Village continues to cut cost where necessary in order to maintain financial stability.

Capital Asset and Debt Administration

The Village continues to maintain and improve the sewer and water infrastructure, street systems, fleets of vehicles and buildings and grounds while maintaining and meeting all of its debt obligations. Many capital additions have been mentioned throughout this report. In addition emergency generators were installed to maintain water and sewer systems when power fails.

Management's Discussion and Analysis

Capital Asset and Debt Administration (Continued)

A summary of capital assets follows:

	Governmental Activities	Business-Type Activities	Total
	(Net of Accumulated Depreciation)		
Land and land improvements	\$ 170,323	\$ 30,005	\$ 200,328
Buildings and improvements	1,463,851	15,767	1,479,618
Equipment, furniture and fixtures	136,531	144,324	280,855
Infrastructure	1,930,536	-	1,930,536
Distribution and collection system	-	4,408,586	4,408,586
Total	<u>\$ 3,701,241</u>	<u>\$ 4,598,682</u>	<u>\$ 8,299,923</u>

At the end of the year the Village had total debt outstanding of \$3,489,282.

Economic Factors and Next Year's Budgets and Rates

Village administration is anticipating a challenging 2006/2007 budget year. As tax revenues remain flat and further cuts in state shared revenues loom, the Village will draw on funds that are available because of sound management practices in the last several years. As the State and County trim budgets, their services to Village residents are reduced, forcing higher costs at the local level.

The cost of policing the Village will continue to increase. The Village has worked with other communities to hold the county charges level on this service, but reassessment is inevitable. For the upcoming budget year, sheriff department services will be at full staff without the need to increase taxes.

Highlights this year will be the continued strength of the Downtown Development Authority and its plans for much needed enhancements. Application for a grant to construct a play superstructure to be located in Carr Park will be made in the spring. The Village will seek bids for a 1.2 million dollar reconstruction project for Hibbard Street. \$786,000 dollars of federal and state funds have already been secured for this project. An elevator will be installed in the municipal building in conjunction with the District Library at a cost of \$350,000, which had been saved for this purpose. The Village will also be purchasing a Backhoe and Sewer Jet Rodder out of our equipment fund to support operations.

The administration is working with the Michigan Department of Transportation on a reconstruction project for M-52 in 2008. The Village hopes to partner with MDOT for enhancements and water main work.

Contacting the Village's Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Village's finances and to show the Village's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Village Manager at 912 City Road, Manchester, MI 48158.

VILLAGE OF MANCHESTER
BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

VILLAGE OF MANCHESTER
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
JUNE 30, 2006

ASSETS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
CURRENT ASSETS			
Cash and cash equivalents	\$ 1,443,969	\$ 1,954,395	\$ 3,398,364
Investments	519,210	-	519,210
Accounts receivable	515,029	161,289	676,318
Due from other governments	66,508	-	66,508
Internal balances	29,915	(12,058)	17,857
Prepaid expenses	76,654	6,396	83,050
Inventory	-	16,023	16,023
Notes receivable - current	-	78,992	78,992
Total current assets	<u>2,651,285</u>	<u>2,205,037</u>	<u>4,856,322</u>
NONCURRENT ASSETS			
Land and land improvements	259,155	30,005	289,160
Buildings and improvements	1,798,864	19,200	1,818,064
Equipment, furniture and fixtures	694,040	256,537	950,577
Infrastructure - roads	2,906,130	-	2,906,130
Distribution and collection system	-	7,714,362	7,714,362
Less - Accumulated depreciation	(1,956,948)	(3,421,422)	(5,378,370)
Net property and equipment	<u>3,701,241</u>	<u>4,598,682</u>	<u>8,299,923</u>
Notes receivable	-	267,546	267,546
Deferred charges	-	85,887	85,887
Total noncurrent assets	<u>3,701,241</u>	<u>4,952,115</u>	<u>8,653,356</u>
Total assets	<u>6,352,526</u>	<u>7,157,152</u>	<u>13,509,678</u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable	560,350	17,891	578,241
Accrued interest payable	9,608	32,578	42,186
Accrued payroll	9,082	7,305	16,387
Accrued leave payable	23,938	-	23,938
Deposits	5,500	-	5,500
Bonds, notes, and loans payable	50,000	290,000	340,000
Total current liabilities	<u>658,478</u>	<u>347,774</u>	<u>1,006,252</u>
NONCURRENT LIABILITIES			
Bonds, notes, and loans payable	985,000	2,164,282	3,149,282
Total liabilities	<u>1,643,478</u>	<u>2,512,056</u>	<u>4,155,534</u>
NET ASSETS			
Invested in capital assets - net of related debt	2,666,241	2,144,400	4,810,641
Restricted for debt service	107,650	396,241	503,891
Unrestricted	1,935,157	2,104,455	4,039,612
Total net assets	<u>\$ 4,709,048</u>	<u>\$ 4,645,096</u>	<u>\$ 9,354,144</u>

The accompanying notes are an integral part of the financial statements.

VILLAGE OF MANCHESTER
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

Functions/Programs	Expenses	Program Revenues		
		Charges for	Operating	Capital
		Services	Grants and	Grants and
			Contributions	Contributions
Governmental activities				
Legislative	\$ 93,452	\$ -	\$ -	\$ -
General government	368,511	127,922	-	107,801
Public safety	389,519	10,889	-	-
Public works	276,980	38,743	151,370	141,676
Recreational and cultural	35,113	-	49,433	13,310
Interest on long-term debt	60,442	-	-	-
Depreciation	244,208	-	-	-
Total governmental activities	1,468,225	177,554	200,803	262,787
Business-type activities				
Water and sewer	850,166	517,427	-	253,990
Total government	\$ 2,318,391	\$ 694,981	\$ 200,803	\$ 516,777
General revenues				
Property taxes				
State-shared revenues				
Interest income				
Franchise fees				
Other income				
Total general revenues				
Change in net assets				
Net assets - Beginning				
Net assets - Ending				

The accompanying notes are an integral part of the financial statements.

Net (Expenses) Revenue
and Changes in Net Assets

Governmental Activities		Business-Type Activities	Total
\$	(93,452)	\$ -	\$ (93,452)
	(132,788)	-	(132,788)
	(378,630)	-	(378,630)
	54,809	-	54,809
	27,630	-	27,630
	(60,442)	-	(60,442)
	(244,208)	-	(244,208)
	(827,081)	-	(827,081)
	-	(78,749)	(78,749)
	(827,081)	(78,749)	(905,830)
	606,081	-	606,081
	213,898	-	213,898
	73,975	84,945	158,920
	20,273	-	20,273
	20,114	9,274	29,388
	934,341	94,219	1,028,560
	107,260	15,470	122,730
	4,601,788	4,629,626	9,231,414
\$	4,709,048	\$ 4,645,096	\$ 9,354,144

VILLAGE OF MANCHESTER
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	GENERAL	MAJOR STREET	LOCAL STREET	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS					
Cash and cash equivalents	\$ 466,443	\$ 119,205	\$ 51,740	\$ 596,732	\$ 1,234,120
Investments	415,368	103,842	-	-	519,210
Accounts receivable	38,565	422,673	7,065	-	468,303
Prepaid expenses	48,486	3,703	6,665	2,841	61,695
Due from other funds	65,122	445	444	9,122	75,133
Due from other governments	66,508	-	-	-	66,508
Advances to other funds	5,000	-	-	-	5,000
Total assets	\$ 1,105,492	\$ 649,868	\$ 65,914	\$ 608,695	\$ 2,429,969
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 105,749	\$ 421,182	\$ 12,476	\$ 5,566	\$ 544,973
Accrued interest payable	9,608	-	-	-	9,608
Accrued payroll	4,746	1,467	2,170	390	8,773
Due to other funds	5,121	3,813	4,251	728	13,913
Deposits	5,500	-	-	-	5,500
Total liabilities	130,724	426,462	18,897	6,684	582,767
FUND BALANCES					
Fund balances - Reserved for debt service	107,650	-	-	-	107,650
Fund balances - Unreserved	867,118	223,406	47,017	602,011	1,739,552
Total fund balances	974,768	223,406	47,017	602,011	1,847,202
Total liabilities and fund equity	\$ 1,105,492	\$ 649,868	\$ 65,914	\$ 608,695	\$ 2,429,969

The accompanying notes are an integral part of the financial statements.

VILLAGE OF MANCHESTER

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO STATEMENT OF NET ASSETS
JUNE 30, 2006**

Total fund balance - total governmental funds	\$ 1,847,202
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet. Includes capital assets of the Internal Service Fund.	3,701,241
The Internal Service Fund is used by management to charge the cost of equipment to individual funds. The assets and liabilities of the Internal Service Fund are included in governmental activities in the statement of net assets.	219,543
Long term liabilities are not due and payable in the current period and, therefore, they are not reported in the governmental funds balance sheet.	(1,035,000)
Accrued leave is not due and payable in the current period and, therefore, is not reported in the governmental funds balance sheet.	<u>(23,938)</u>
Net assets of governmental activities	<u><u>\$ 4,709,048</u></u>

The accompanying notes are an integral part of the financial statements.

VILLAGE OF MANCHESTER
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2006

	GENERAL FUND	MAJOR STREET	LOCAL STREET	OTHER GOVERNMENT FUNDS	TOTAL
REVENUES:					
Taxes and penalties	\$ 713,882	\$ -	\$ -	\$ 170,356	\$ 884,238
Franchise fee	20,273	-	-	-	20,273
Licenses and permits	5,030	-	-	-	5,030
Fees and fines	10,889	-	-	-	10,889
Intergovernmental - State	213,898	108,584	42,786	-	365,268
Charges for services	61,533	-	-	-	61,533
Rental income	66,389	-	-	-	66,389
Interest income	33,227	7,589	-	26,436	67,252
Other revenue	11,595	23,589	-	14,994	50,178
Total revenues	<u>1,136,716</u>	<u>139,762</u>	<u>42,786</u>	<u>211,786</u>	<u>1,531,050</u>
EXPENDITURES:					
Current:					
Legislative	93,452	-	-	-	93,452
General government	370,843	-	-	-	370,843
Public safety	389,519	-	-	-	389,519
Public works	92,213	165,061	102,912	-	360,186
Recreational & cultural	-	-	-	36,106	36,106
Capital outlay	45,550	-	-	-	45,550
Debt service	110,442	-	-	-	110,442
Total expenditures	<u>1,102,019</u>	<u>165,061</u>	<u>102,912</u>	<u>36,106</u>	<u>1,406,098</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>34,697</u>	<u>(25,299)</u>	<u>(60,126)</u>	<u>175,680</u>	<u>124,952</u>
OTHER FINANCING SOURCES (USES):					
Operating transfers in	-	130,000	30,000	-	160,000
Operating transfers (out)	-	-	-	(160,000)	(160,000)
Total other financing sources (uses)	<u>-</u>	<u>130,000</u>	<u>30,000</u>	<u>(160,000)</u>	<u>-</u>
NET CHANGES IN FUND BALANCES	<u>34,697</u>	<u>104,701</u>	<u>(30,126)</u>	<u>15,680</u>	<u>124,952</u>
FUND BALANCE - Beginning of year	<u>940,071</u>	<u>118,705</u>	<u>77,143</u>	<u>586,331</u>	<u>1,722,250</u>
FUND BALANCE - End of year	<u>\$ 974,768</u>	<u>\$ 223,406</u>	<u>\$ 47,017</u>	<u>\$ 602,011</u>	<u>\$ 1,847,202</u>

The accompanying notes are an integral part of the financial statements.

VILLAGE OF MANCHESTER

Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balance of Governmental Funds to the
Statement of Activities.

Year ended June 30, 2006

Net change in fund balances - total governmental funds	\$ 124,952
Amounts reported for governmental activities in the statement of activities are different because:	
Government funds report capital outlay as expenditures. However, in the government wide statement of activities and changes in net assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period.	119,468
Depreciation expense on capital assets is reported in the government-wide statement of activities and changes in net assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as an expenditure in governmental funds. Includes Internal Service Funds depreciation expense.	(244,208)
The Internal Service Fund is used by management to charge the cost of equipment to individual funds. The net revenue of the Internal Service Fund are included in governmental activities.	56,219
Earned leave expenses reported in the statement of activities do not require the use of current financial resources, therefore, are not reported as expenditures in governmental funds.	829
The payments of long term debt consumes the current financial resources of governmental funds.	<u>50,000</u>
Change in net assets of governmental activities	<u>\$ 107,260</u>

The accompanying notes are an integral part of the financial statements.

VILLAGE OF MANCHESTER
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2006

ASSETS	ENTERPRISE FUNDS			INTERNAL SERVICE FUND
	WATER	SEWER	TOTAL	
CURRENT ASSETS:				
Cash and cash equivalents	\$ 649,921	\$ 1,304,474	\$ 1,954,395	\$ 209,849
Accounts receivable	21,505	38,670	60,175	-
Prepaid expenses	3,908	2,488	6,396	14,959
Due from other funds	91,232	44,976	136,208	10,850
Inventory	16,023	-	16,023	-
Special assesment receivable - current	74,300	4,692	78,992	-
Total current assets	<u>856,889</u>	<u>1,395,300</u>	<u>2,252,189</u>	<u>235,658</u>
NONCURRENT ASSETS				
Land and land improvements	3,005	27,000	30,005	-
Buildings and improvements	9,800	9,400	19,200	-
Equipment, furniture and fixtures	100,617	155,920	256,537	572,367
Distribution and collection system	1,877,617	5,836,745	7,714,362	-
Less - Accumulated depreciation	(377,371)	(3,044,051)	(3,421,422)	(475,075)
Net property and equipment	<u>1,613,668</u>	<u>2,985,014</u>	<u>4,598,682</u>	<u>97,292</u>
Special assessment receivable	251,654	15,892	267,546	-
Deferred charges:				
Unamortized bond issuance costs	14,266	40,196	54,462	-
Deferred refunding loss	-	31,425	31,425	-
Total noncurrent assets	<u>1,879,588</u>	<u>3,072,527</u>	<u>4,952,115</u>	<u>97,292</u>
Total assets	<u>2,736,477</u>	<u>4,467,827</u>	<u>7,204,304</u>	<u>332,950</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES:				
Accounts payable	7,917	9,974	17,891	15,377
Accrued interest payable	4,844	27,734	32,578	-
Accrued payroll	2,119	5,186	7,305	309
Due to other funds	41,638	5,514	47,152	429
Bonds, notes, and loans payable	100,000	190,000	290,000	-
Total current liabilities	<u>156,518</u>	<u>238,408</u>	<u>394,926</u>	<u>16,115</u>
NONCURRENT LIABILITIES:				
Bonds, notes, and loans payable	710,000	1,454,282	2,164,282	-
Total liabilities	<u>866,518</u>	<u>1,692,690</u>	<u>2,559,208</u>	<u>16,115</u>
NET ASSETS:				
Invested in capital assets - net of related debt	803,668	1,340,732	2,144,400	97,292
Restricted for debt service	118,675	277,566	396,241	-
Unrestricted	947,616	1,156,839	2,104,455	219,543
Total net assets	<u>\$ 1,869,959</u>	<u>\$ 2,775,137</u>	<u>\$ 4,645,096</u>	<u>\$ 316,835</u>

The accompanying notes are an integral part of the financial statements.

VILLAGE OF MANCHESTER
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2006

	ENTERPRISE FUNDS			INTERNAL SERVICE FUND
	WATER	SEWER	TOTAL	
OPERATING REVENUES:				
Charges for services	\$ 189,135	\$ 285,570	\$ 474,705	\$ 117,032
Charges for services - Bridgewater Township	-	11,422	11,422	-
Connection fees	8,100	23,200	31,300	-
Total operating revenues	197,235	320,192	517,427	117,032
OPERATING EXPENSES:				
Salaries and wages	58,981	111,832	170,813	11,740
Payroll taxes	4,454	8,562	13,016	900
Employee benefits	21,306	39,691	60,997	3,758
Chemicals	3,895	4,573	8,468	-
Operating supplies	8,773	18,193	26,966	21,183
Postage	1,109	1,152	2,261	-
Purchased services	15,829	50,828	66,657	1,023
Purchased services - legal and auditing	2,270	2,697	4,967	799
Permits and fees	-	1,950	1,950	-
Telephone	653	2,869	3,522	-
Utilities	11,995	29,093	41,088	-
Training, education and seminars	378	1,452	1,830	-
Memberships	380	110	490	-
Repairs and maintenance	14,430	7,176	21,606	19,172
Insurance	4,289	2,880	7,169	11,736
Printing	188	-	188	-
Allocation of equipment costs	11,852	21,861	33,713	-
Maintenance agreements	1,050	2,526	3,576	494
Depreciation	55,643	196,992	252,635	40,450
Total operating expenses	217,475	504,437	721,912	111,255
OPERATING INCOME	(20,240)	(184,245)	(204,485)	5,777
NON-OPERATING REVENUES (EXPENSES):				
Interest income	33,952	50,993	84,945	6,723
Collection of tax assessments	41,399	206,029	247,428	-
Other income	6,874	2,400	9,274	3,999
Interest expense	(20,288)	(90,036)	(110,324)	(730)
Miscellaneous expense	(225)	(1,000)	(1,225)	-
Amortization of bond issuance costs	(2,214)	(2,739)	(4,953)	-
Total non-operating revenues (expenses)	59,498	165,647	225,145	9,992
Income (loss) before contributions and extraordinary (loss) from defeased debt	39,258	(18,598)	20,660	15,769
CAPITAL CONTRIBUTIONS	281	6,281	6,562	-
EXTRAORDINARY (LOSS) - From defeased debt	-	(11,752)	(11,752)	-
Change in net assets	39,539	(24,069)	15,470	15,769
TOTAL NET ASSETS - Beginning of year	1,830,420	2,799,206	4,629,626	301,066
TOTAL NET ASSETS - End of year	\$ 1,869,959	\$ 2,775,137	\$ 4,645,096	\$ 316,835

The accompanying notes are an integral part of the financial statements.

VILLAGE OF MANCHESTER
PROPRIETARY FUND STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2006

	ENTERPRISE FUNDS			INTERNAL SERVICE FUND
	WATER FUND	SEWER FUND	TOTAL	
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 202,142	\$ 321,946	\$ 524,088	\$ 116,868
Payments to suppliers	(74,469)	(153,958)	(228,427)	(55,560)
Payments to employees	(83,990)	(160,176)	(244,166)	(16,418)
Cash paid to other funds	37,474	17,947	55,421	429
Net cash provided (used) by operating activities	81,157	25,759	106,916	45,319
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Capital contributions	281	6,281	6,562	-
Purchase of capital assets	(85,330)	(31,340)	(116,670)	(79,416)
Principal and interest paid on capital debt	(120,825)	(277,769)	(398,594)	(14,120)
Proceeds from tax/special assessments	106,585	210,151	316,736	-
Other receipts (payments)	6,649	1,400	8,049	3,999
Net cash provided (used) by capital and related financing activities	(92,640)	(91,277)	(183,917)	(89,537)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest income	33,952	50,993	84,945	6,723
Net cash provided by investing activities	33,952	50,993	84,945	6,723
Net increase (decrease) in cash and cash equivalents	22,469	(14,525)	7,944	(37,495)
Balances - beginning of year	627,452	1,318,999	1,946,451	247,344
Balances - end of year	\$ 649,921	\$ 1,304,474	\$ 1,954,395	\$ 209,849
Reconciliation of operating income (loss) to net cash provided (used) by operating activities				
Operating income (loss)	\$ (20,240)	\$ (184,245)	\$ (204,485)	5,777
Adjustments to reconcile operating income to net cash provided (used) by operating activities				
Depreciation expense	55,643	196,992	252,635	40,450
Change in assets and liabilities				
Receivables - net	4,907	1,754	6,661	510
Prepaid expenses	209	133	342	(5,908)
Due from other funds	14,034	18,494	32,528	(674)
Inventories	1,409	-	1,409	-
Accounts and other payables	1,004	(6,731)	(5,727)	4,755
Due to other funds	23,440	(547)	22,893	429
Accrued expenses	751	(91)	660	(20)
Net cash provided by operating activities	\$ 81,157	\$ 25,759	\$ 106,916	\$ 45,319

The accompanying notes are an integral part of the financial statements.

VILLAGE OF MANCHESTER
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2006

	EMPLOYEE INSURANCE FUND	SICK PAY BENEFIT FUND	AGENCY FUNDS
<u>ASSETS</u>			
Cash and cash equivalents	\$ 42,972	\$ 50,335	\$ 26,003
Accounts receivable	-	-	139,770
Due from other funds	-	-	142
Total assets	42,972	50,335	165,915
<u>LIABILITIES</u>			
Accounts payable	132	-	76
Accrued leave time	-	21,164	-
Due to other funds	-	-	160,839
Advances from other funds	-	-	5,000
Total liabilities	132	21,164	\$ 165,915
<u>NET ASSETS</u>			
Held in trust for employee benefits	\$ 42,840	\$ 29,171	

The accompanying notes are an integral part of the financial statements.

VILLAGE OF MANCHESTER
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2006

	<u>EMPLOYEE INSURANCE FUND</u>	<u>SICK PAY BENEFIT FUND</u>
<u>ADDITIONS</u>		
Employer contributions	\$ 9,122	\$ -
Interest income	1,159	1,911
Total additions	<u>10,281</u>	<u>1,911</u>
<u>DEDUCTIONS</u>		
Benefits	<u>6,965</u>	<u>857</u>
Change in net assets	3,316	1,054
Net assets - beginning of year	<u>39,524</u>	<u>28,117</u>
Net assets - end of year	<u><u>\$ 42,840</u></u>	<u><u>\$ 29,171</u></u>

The accompanying notes are an integral part of the financial statements.

VILLAGE OF MANCHESTER
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

VILLAGE OF MANCHESTER
INDEX TO THE NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

	<u>PAGE NUMBER</u>
NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:	
A. DESCRIPTION OF VILLAGE OPERATIONS	18
B. REPORTING ENTITY	18
C. GOVERNMENT-WIDE FINANCIAL STATEMENTS	18
D. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION	19
E. CASH AND CASH EQUIVALENTS	21
F. RECEIVABLES	21
G. INVENTORIES	21
H. PREPAID EXPENSES	21
I. CAPITAL ASSETS	21
J. FUND EQUITY	22
K. ACCUMULATED UNPAID LEAVE PAY	22
L. LONG TERM OBLIGATIONS	22
M. ESTIMATES	22
NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:	
BUDGETARY INFORMATION	22
BUDGET VIOLATIONS	23
NOTE 3 - PROPERTY TAXES	23
NOTE 4 - CASH AND INVESTMENTS	24
NOTE 5 - INTERFUND RECEIVABLES AND PAYABLES	25
NOTE 6 - PROPERTY, PLANT AND EQUIPMENT	27
NOTE 7 - EMPLOYEES' PENSION PLAN	29
NOTE 8 - DEFERRED COMPENSATION PLAN	29
NOTE 9 - CHANGES IN LONG-TERM DEBT	30
NOTE 10 - RISK MANAGEMENT	31
NOTE 11 - JOINT VENTURE	32
NOTE 12 - INFRASTRUCTURE	32
NOTE 13 - SUBSEQUENT EVENTS	32

VILLAGE OF MANCHESTER
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

The accounting methods and procedures adopted by the Village of Manchester conform to accounting principles generally accepted in the United States of America (GAAP) as applied to governmental entities. The following is a summary of the significant accounting policies used by the Village of Manchester.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. DESCRIPTION OF VILLAGE OPERATIONS -

The Village of Manchester was organized in 1874 and is located in the southwestern portion of Washtenaw County. The Village operates under an elected Village Council and provides services to more than 2,000 residents. These services include law enforcement, water and sewer, and community enrichment and development.

B. REPORTING ENTITY -

As required by generally accepted accounting principles, the financial statements of the Village of Manchester include its primary government, organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. On this basis, accordingly, the financial statements of certain other governmental organizations within the Village, such as the school district, are not included in the financial statements of the Village.

C. GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Government-Wide Financial Statements report information on all of the nonfiduciary activities of the Village of Manchester. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for Governmental Funds, Proprietary Funds and Fiduciary Funds, even though the latter are excluded from the Government-Wide Financial Statements. Major individual Governmental Funds and major individual Enterprise Funds are reported as a separate column in the fund financial statements.

VILLAGE OF MANCHESTER
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

D. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The Government-Wide Financial Statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the Proprietary Fund and Fiduciary Fund Financial Statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Village considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due. All other revenue items are considered to be available only when cash is received by the government.

The Village reports the following Major Governmental Funds:

- The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The Major Street Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on major streets.
- The Local Street Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on local streets.

The Village reports the following nonmajor funds:

- The Municipal Street Fund accounts for resources received from special assessment taxes levied for street purposes by making contributions to the Major and Local Street Funds.
- The Parks and Recreation Fund accounts for resources received from special assessment taxes levied for the purpose of operating and maintaining the Village's parks and recreational activities.
- The Public Improvement Fund accounts for resources received from the General Fund earmarked for public improvements.

The Village reports the following Major Proprietary Funds:

- The Water and Sewer Funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector.

VILLAGE OF MANCHESTER
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

D. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION (Continued)

Additionally, the Village reports the following fund types:

- The Equipment Internal Service funds account for major machinery and equipment purchases and maintenance, as well as risk management services provided to other departments of the government on a cost reimbursement basis.

The Village reports the following Fiduciary Funds (not included in Government-Wide Financial Statements)

- Expendable Trust Funds are funds whose entire resources, principal and income, may be expended in the course of their designated operations. The Village has two expendable trust funds:
- The Employee Insurance Fund accounts for resources contributed by the general fund to reimburse Village employees for dental, prescription, and optical charges which they incur.
- The DPW Benefit Fund accounts for resources set aside to pay employees accumulated leave time when they leave employment.

Agency funds account for assets held by the Village in a purely custodial capacity, the reporting entity includes three agency funds. Since agency funds are custodial in nature, they do not involve the measurement of results of operations. The Agency Funds are as follows:

- The Payroll Fund accounts for taxes and other employee deductions which are to be distributed to organizations and other government units.
- The Tax Revenue Fund accounts for property tax collections to be distributed to various Village funds.
- The Operational Clearing Fund processes the cash disbursements for all other funds.

As a general rule, the effect of interfund activity has been eliminated from the Government-Wide Financial Statements. Exceptions to this general rule are charges between the government's water and sewer functions and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; (3) capital grants and contributions, including special assessments and (4) property taxes levied to pay debt. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes not levied for a specific purpose.

Proprietary Funds distinguish operating revenue and expenses from non-operating items. Operating revenue and expenses generally result from providing services. The principal operating revenue of our Proprietary Funds relate to charges to customers for sales and services. Operating expenses for Proprietary Funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenues and expenses

VILLAGE OF MANCHESTER
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

E. CASH AND CASH EQUIVALENTS -

The Village has classified cash on hand in checking accounts as cash for balance sheet purposes. Cash in excess of current requirements is invested by the Treasurer in government pooled accounts. Because these accounts have liquidity similar to a regular checking account, they are presented as a cash equivalent in the financial statements.

F. RECEIVABLES -

The Village of Manchester records various receivables which are listed and described as follows:

- 1) Accounts Receivable - This account is for charges for services which have been billed but not yet received in both the Governmental and Proprietary Fund Types, and for amounts due from fiduciary funds as of June 30, 2006. This account is also for amounts due from Washtenaw County for delinquent property taxes in the Tax Revenue Trust and Agency Fund.
- 2) Due From Other Governments - This account is for amounts due from the State of Michigan for State shared revenue in the General Fund, and Fuel Tax revenues in the Major and Local Street Funds.
- 3) Special Assessment Receivables - This account is for special assessment district for water and sewer expansion to the current distribution and collection system.

G. INVENTORIES -

Inventories are valued at the lower of cost or market. The inventories in the Water and Sewer Enterprise Funds consist of parts and supplies which are available to be sold or used by the Village.

H. PREPAID EXPENSES -

Expenses, material in amount, which provide benefits in a future period have been set up as prepaid. They will be recognized as an expense in the period receiving the benefit.

I. CAPITAL ASSETS -

Capital assets, which include property, plant, and equipment, infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the Government-Wide Financial Statements. Donated capital assets are recorded at estimated fair market value at the date of donation.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

VILLAGE OF MANCHESTER
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

I. CAPITAL ASSETS – (Continued)

Property, plant and equipment are depreciated using the straight-line method over the following useful lives:

Buildings	40 years
Building improvements	15 to 30 years
Water and Sewer lines	30 to 50 years
Roads	10 to 30 years
Vehicles and equipment	3 to 7 years

J. FUND EQUITY -

In the Fund Financial Statements, Governmental Funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

K. ACCUMULATED UNPAID LEAVE PAY -

It is the Village's policy to permit employees to accumulate earned but unused leave time. Accumulated at June 30, 2006, the liability included \$23,938 unpaid leave benefits reported in the Governmental Funds. All leave pay is accrued when incurred in the Government-Wide and Fiduciary Fund Financial Statements.

L. LONG-TERM OBLIGATIONS -

In the Government Wide Financial Statements and Proprietary Fund types in the fund financial statements, long term debt and other long term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or Proprietary Fund type statement of net assets. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

M. ESTIMATES -

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that effect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

BUDGETARY INFORMATION -

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all Governmental Funds.

The budget document presents information by fund, function, department and line items. The legal level of budgetary control adopted by the governing body is the department level.

VILLAGE OF MANCHESTER
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY: (Continued)

BUDGET VIOLATIONS -

During the year, the Village incurred expenditures in certain budgeted funds which were in excess of the amounts appropriated, as follows:

<u>FUND/DEPARTMENT</u>	<u>FINAL AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>(EXCESS BUDGET VARIANCE)</u>
GENERAL FUND			
Planning commission	\$ 19,600	\$ 20,631	\$ (1,031)
MAJOR STREET FUND			
Bridge maintenance	\$ 5,000	\$ 5,900	\$ (900)
LOCAL STREET FUND			
Street construction	\$ -	\$ 130	\$ (130)
Street maintenance	56,650	58,859	(2,209)
Bridge maintenance	-	4,176	(4,176)
Traffic services	6,800	7,869	(1,069)
Total	\$ 63,450	\$ 71,034	\$ (7,584)

NOTE 3 - PROPERTY TAXES:

Real and personal property taxes are levied on each July 1st on the property located in the Village as of the preceding December 31, the lien date. These taxes are due to the Village by the last day of the following September. Real property taxes not paid by this date are considered delinquent, and are sent over to Washtenaw County for collection. Delinquent real property taxes are paid to the Village by Washtenaw County, therefore the General Fund reflects as revenue the full amount of real taxes levied during the year. The personal property taxes are reflected as revenues in the year collected.

The Village's operating tax rate is currently 15.3891 mills and is distributed as follows:

General Operation	8.2455
Water Systems	0.5524
Highways and Streets	1.6451
Parks and Recreation	0.6722
Debt Service	4.2739
	<u>15.3891</u>

The taxable value of real and personal property located in the Village was \$78,275,600.

VILLAGE OF MANCHESTER
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 4 - CASH AND INVESTMENTS:

The Village Treasurer is authorized by state law and a resolution from the Board of Trustees to invest surplus funds as follows:

- 1) Bonds or other direct obligations of the United States.
- 2) Certificates of deposit, savings accounts, deposit accounts or depository receipts of a federally insured bank or credit union.
- 3) Commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services. The maturity date of the commercial paper must not be longer than 270 days from the purchase date, and no more than 50% of any fund may be invested in commercial paper at any time.
- 4) United States government or federal agency obligations repurchase agreements.
- 5) Bankers' acceptances of United States banks.
- 6) Mutual funds composed of investment vehicles which are legal for direct investments by the Village.

Cash and cash equivalents of the Village can be categorized as follows:

	Carrying Amount	Bank Balance
Cash on hand	\$ 225	\$ -
Insured (FDIC)	100,000	100,000
Uninsured and uncollateralized	3,417,449	3,508,760
	<u>\$ 3,517,674</u>	<u>\$ 3,608,760</u>
Reported in financial statements:		
Governmental funds	\$ 1,443,969	
Proprietary funds (Business-type)	1,954,395	
Fiduciary funds	119,310	
	<u>\$ 3,517,674</u>	

The Village investments consist of certificates of deposit with a maturity of greater than 90 days. The Village has chosen to disclose its investments by specifically identifying each. As of June 30, 2006, the Village had the following investments:

<u>Investment Type</u>	<u>Maturity</u>	<u>Market Value</u>	<u>Rating</u>
Certificates of Deposit - Insured			
United Bank & Trust	5/26/07	\$ 100,000	S&P-AAA
Certificates of Deposit - Uninsured			
United Bank & Trust	5/26/07	3,842	S&P-AAA
United Bank & Trust	5/26/07	103,842	S&P-AAA
United Bank & Trust	5/26/07	103,842	S&P-AAA
United Bank & Trust	5/26/07	103,842	S&P-AAA
United Bank & Trust	5/26/07	103,842	S&P-AAA
		<u>\$ 519,210</u>	

VILLAGE OF MANCHESTER
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 4 - CASH AND INVESTMENTS: (Continued)

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Village minimizes this risk by investing in shorter term securities and holding them to maturity.

Concentration of Credit Risk

The Village's investment policy contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by Michigan law.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in possession of an outside party. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and are uncollateralized; collateralized with securities held by the pledging financial institution; or collateralized with securities held by the pledging financial institution's trust department or agent but not in the Village's name.

The custodial credit risk for investments is that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, the Village will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Michigan law and the Village's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits and investments, other than the following provision for deposits: Michigan law (MCL 129.33) requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal at least 100% of the total amount deposited by public agencies.

NOTE 5 - INTERFUND RECEIVABLES AND PAYABLES:

The amount of interfund receivables and payables at June 30, 2006, are as follows:

<u>RECEIVABLES</u>		<u>PAYABLES</u>	
General	\$	Major Street	\$ 1,021
	-	Local Street	1,029
	-	Parks	228
	-	Sewer	3,785
	-	Water	7,965
	-	Equipment	429
	-	Payroll	5,000
	-	Operational Clearing	8,000
	-	Tax Revenues	37,665
	<u>65,122</u>		<u>65,122</u>
Subtotal	<u>65,122</u>		<u>65,122</u>

VILLAGE OF MANCHESTER
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 5 – INTERFUND RECEIVABLES AND PAYABLES: (CONTINUED)

<u>RECEIVABLES</u>		<u>PAYABLES</u>	
Carryover	65,122		65,122
Major	445	General	445
Local Street	444	General	444
Municipal Street	6,416	Tax Revenues	6,416
Parks & Recreation	-	General	61
	-	Tax Revenues	2,645
	2,706		2,706
Water	-	General	798
	-	Tax collection	90,434
	91,232		91,232
Sewer	-	General	1,486
	-	Water	32,810
	-	Tax Revenues	10,680
	44,976		44,976
Equipment	-	General Fund	1,747
	-	Major Street	2,791
	-	Local Street	3,221
	-	Parks	500
	-	Sewer	1,729
	-	Water	862
	10,850		10,850
Payroll	142	General	142
Total	<u>\$ 222,333</u>	Total	<u>\$ 222,333</u>

VILLAGE OF MANCHESTER
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 6 - PROPERTY, PLANT AND EQUIPMENT:

Capital asset activity of the Village of Manchester for the current year was as follows:

	<u>07/01/05</u>	<u>INCREASES</u>	<u>DECREASES</u>	<u>06/30/06</u>
<u>GOVERNMENTAL ACTIVITIES</u>				
Capital assets not being depreciated				
Land	\$ 79,901	\$ -	\$ -	\$ 79,901
Construction in progress	-	48,125	-	48,125
Subtotal	<u>79,901</u>	<u>48,125</u>	<u>-</u>	<u>128,026</u>
Capital assets being depreciated				
Land improvements	158,906	20,348	-	179,254
Buildings and improvements	1,782,366	16,498	-	1,798,864
Equipment, furniture and fixtures	642,913	88,121	36,994	694,040
Infrastructure - roads	2,832,212	25,793	-	2,858,005
Subtotal	<u>5,416,397</u>	<u>150,760</u>	<u>36,994</u>	<u>5,530,163</u>
Less accumulated depreciation for				
Land improvements	80,775	8,057	-	88,832
Buildings and improvements	292,464	42,549	-	335,013
Equipment, furniture and fixtures	543,675	50,828	36,994	557,509
Infrastructure - roads	832,820	142,774	-	975,594
Subtotal	<u>1,749,734</u>	<u>244,208</u>	<u>36,994</u>	<u>1,956,948</u>
Net capital assets being depreciated	<u>3,666,663</u>	<u>(93,448)</u>	<u>-</u>	<u>3,573,215</u>
Capital assets - net of depreciation	<u>\$ 3,746,564</u>	<u>\$ (45,323)</u>	<u>\$ -</u>	<u>\$ 3,701,241</u>

VILLAGE OF MANCHESTER
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 6 - PROPERTY, PLANT AND EQUIPMENT: (Continued)

Capital asset activity of the Village of Manchester for the current year was as follows: (Continued)

	<u>07/01/05</u>	<u>INCREASES</u>	<u>DECREASES</u>	<u>06/30/06</u>
<u>BUSINESS-TYPE ACTIVITIES</u>				
Capital assets not being depreciated				
Land	<u>\$ 30,005</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 30,005</u>
Capital assets being depreciated				
Buildings and improvements	19,200	-	-	19,200
Equipment, furniture and fixtures	146,428	110,109	-	256,537
Distribution and collection system	7,707,801	6,561	-	7,714,362
Subtotal	<u>7,873,429</u>	<u>116,670</u>	<u>-</u>	<u>7,990,099</u>
Less accumulated depreciation for				
Buildings and improvements	2,652	781	-	3,433
Equipment, furniture and fixtures	94,686	17,527	-	112,213
Distribution and collection system	3,071,449	234,327	-	3,305,776
Subtotal	<u>3,168,787</u>	<u>252,635</u>	<u>-</u>	<u>3,421,422</u>
Net capital assets being depreciated	<u>4,704,642</u>	<u>(135,965)</u>	<u>-</u>	<u>4,568,677</u>
Capital assets - net of depreciation	<u>\$ 4,734,647</u>	<u>\$ (135,965)</u>	<u>\$ -</u>	<u>\$ 4,598,682</u>

Depreciation expense was charged to programs of the primary government as follows:

GOVERNMENTAL ACTIVITIES	<u>\$ 244,208</u>
BUSINESS TYPE ACTIVITIES	
Water	\$ 55,643
Sewer	<u>196,992</u>
Total business type activities	<u>\$ 252,635</u>

VILLAGE OF MANCHESTER
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 7 - EMPLOYEES PENSION PLAN:

The Village contributes to a defined contribution pension plan, administered by Principal Mutual Life, which covers all full time salaried and clerical employees.

A defined contribution pension plan provides pension benefits in return for service rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to a participant's account and the returns on investments of these contributions. Contributions made by an employee and contributions by the Village both vest immediately. Each employee may contribute 6% to 10% of his or her gross earnings to the pension plan. The Village is required to contribute an amount equal to what each employee contributes up to 6% of the employee's gross earnings, excluding any overtime earnings. Contributions are reduced by plan administrative charges.

During the year ending June 30, 2006, the Village's required contributions amounted to \$21,847 which was 6.00% of its current year covered payroll. Employees contributions amounted to \$23,360 which was 6.3% of the Village's current year covered payroll.

Total payroll for the fiscal year ending June 30, 2006, was \$433,799 and total payroll subject to retirement benefits was \$368,372.

The pension plan held no securities on the Village or other related parties during the year or as of the close of the fiscal year.

NOTE 8 - DEFERRED COMPENSATION PLAN:

The Village of Manchester offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all Village employees at their option, permits participants to defer a portion of their salary until future years. The deferred compensation is not available to participants until termination, retirement, death, or unforeseeable emergency.

VILLAGE OF MANCHESTER
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 9 - CHANGES IN LONG-TERM DEBT:

The general long-term debt and other long-term obligations of the Village of Manchester, and the changes therein, may be summarized as follows:

	DEBT OUT- STANDING 07/01/05	ADDITIONS OF NEW DEBT	RETIREMENTS AND REPAYMENTS	DEBT OUT- STANDING 06/30/06
GOVERNMENTAL ACTIVITIES				
2000 General Obligation Bonds, \$1,250,000 maturing serially in annual amounts ranging from \$20,000 to \$100,000 at an interest rate of 5.5% to 5.7%	\$ 1,085,000	\$ -	\$ (50,000)	\$ 1,035,000
Equipment Internal Service Fund. Street sweeper installment purchase agreement - maturing serially in annual amounts of \$14,122 at an interest rate of 5.45%	13,390	-	(13,390)	-
Total governmental activities	\$ 1,098,390	\$ -	\$ (63,390)	\$ 1,035,000
BUSINESS TYPE ACTIVITIES				
1991 General Obligation Bonds, \$955,000 maturing serially in annual amounts ranging from \$40,000 to \$60,000 at an interest rate of 2.00%.	\$ 374,282	\$ -	\$ (50,000)	\$ 324,282
1993 Unlimited Tax General Obligation Series-A Refunding Bonds, \$1,750,000 maturing serially in annual amounts ranging from \$35,000 to \$95,000 at an interest rate ranging from 3.25% to 6.10%.	975,000	-	(95,000)	880,000
1993 Limited Tax General Obligation Series-B Refunding Bonds, \$765,000 maturing serially in annual amounts ranging from \$5,000 to \$50,000 at an interest rate ranging from 3.30% to 6.05%.	480,000	-	(40,000)	440,000
1998 Michigan Drinking Water Revolving Fund program bonds. \$620,000 maturing serially in annual amounts ranging from \$25,000 to \$40,000 at an interest rate of 2.5%	470,000	-	(30,000)	440,000
2004 Special assessment bonds. \$490,000 maturing serially in annual amounts ranging from \$50,000 to \$75,000 at an interest rate ranging from 2.0% to 2.7%.	440,000	-	(70,000)	370,000
Total business type activities	\$ 2,739,282	\$ -	\$ (285,000)	\$ 2,454,282

VILLAGE OF MANCHESTER
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 9 - CHANGES IN LONG-TERM DEBT: (Continued)

The Governmental Activities Debt Bonds were issued to finance the purchase of a new community center. Repayment of the bonds is to be made from taxes assessed. The annual requirements to maturity for principal and interest are as follows:

<u>FISCAL YEAR DUE</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>
2007	50,000	57,650
2008	50,000	54,900
2009	55,000	52,150
2010	60,000	49,125
2011	60,000	45,825
Thereafter	<u>760,000</u>	<u>230,000</u>
	<u>\$ 1,035,000</u>	<u>\$ 489,650</u>

The Business Type Bonds were issued to finance construction of the Village's Water & Sewer System. Repayment of the bonds is to be made from revenues generated by the system and from taxes assessed. The remaining annual requirements to maturity for principal and interest are as follows:

<u>FISCAL YEAR DUE</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>
2007	290,000	101,999
2008	250,000	91,935
2009	260,000	83,162
2010	265,000	73,761
2011	265,000	64,035
Thereafter	<u>1,124,282</u>	<u>283,829</u>
	<u>\$ 2,454,282</u>	<u>\$ 698,721</u>

NOTE 10 - RISK MANAGEMENT

The Village is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Village has purchased commercial insurance for claims.

VILLAGE OF MANCHESTER
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 11 – JOINT VENTURE

The Western Washtenaw Construction Authority was organized in January 2000. The Authority operates under an operating agreement between the Village of Manchester and the Townships of Manchester, Freedom and Bridgewater to provide for joint enforcement and administration of construction codes. The agreement provides that if for any reason the expenditures exceed the revenues during any fiscal year, the Authority may require a contribution from the participants.

NOTE 12 - INFRASTRUCTURE

The Village had elected to implement the capitalization of infrastructure over a three-year period as allowed under GASB 34. The Village complied with GASB 34 as of June 30, 2006 by retroactively reporting infrastructure for roads and streets. The retroactive restatement to beginning net assets was \$850,210. This amount is net of Roads and Streets of \$1,650,003 and accumulated depreciation of \$799,793.

NOTE 13 – SUBSEQUENT EVENTS

The Village has committed to the construction of an elevator in the Village hall. The cost of this elevator will be shared with the Manchester District Library who leases a part of the Village hall. The cost of the elevator is expected to be approximately \$350,000. The Library has agreed to share the cost of the new elevator based on the total cost of the elevator, using a 20 year life, a 60% Library benefit, and the years remaining in the shared usage agreement based on the United States Treasury 10 year bond rate at the time of the elevator completion.

VILLAGE OF MANCHESTER
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2006

VILLAGE OF MANCHESTER
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2006

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL</u>	<u>VARIANCE WITH</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>AMOUNTS</u>	<u>FINAL BUDGET</u>
				<u>POSITIVE (NEGATIVE)</u>
Revenue				
Taxes -				
Current property taxes	\$ 734,100	\$ 734,100	\$ 713,882	\$ (20,218)
Franchise fees	19,000	19,000	20,273	1,273
Licenses and permits	2,150	4,150	5,030	880
Fees and fines	6,700	6,700	10,889	4,189
Intergovernmental				
Sales tax	206,500	206,500	205,224	(1,276)
State liquor control	1,700	1,700	1,774	74
State metro act	6,800	8,700	6,900	(1,800)
Total	215,000	216,900	213,898	(3,002)
Charges for services				
Garbage pickup	55,000	60,000	61,533	1,533
Rental income	48,800	62,800	66,389	3,589
Interest income	6,250	14,250	33,227	18,977
Other revenue				
Reimbursements	16,700	9,700	10,257	557
Miscellaneous	-	1,000	1,338	338
Total	16,700	10,700	11,595	895
Total Revenues	\$ 1,103,700	\$ 1,128,600	\$ 1,136,716	\$ 8,116

The accompanying notes are an integral part of the financial statements.

VILLAGE OF MANCHESTER
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2006

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL</u>	<u>VARIANCE WITH</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>AMOUNTS</u>	<u>FINAL BUDGET</u>
				<u>POSITIVE (NEGATIVE)</u>
Expenditures:				
LEGISLATIVE:				
VILLAGE COUNCIL:				
Salaries and wages	\$ -	\$ -	\$ 58,920	\$ -
Payroll taxes	-	-	4,633	-
Employee benefits	-	-	17,460	-
Memberships	-	-	2,254	-
Training, education and seminars	-	-	95	-
Purchased services	-	-	2,770	-
Operating supplies	-	-	192	-
Printing	-	-	3,551	-
Senior citizens	-	-	1,000	-
Community Resource Center	-	-	2,000	-
Chamber of Commerce	-	-	500	-
Community promotion	-	-	77	-
Total legislative	94,980	94,980	93,452	1,528
GENERAL GOVERNMENT:				
ADMINISTRATION:				
Salaries and wages	-	-	80,284	-
Payroll taxes	-	-	6,107	-
Employee benefits	-	-	21,999	-
Operating supplies	-	-	7,373	-
Election expenses	-	-	919	-
Postage	-	-	2,824	-
Telephone	-	-	2,243	-
Memberships	-	-	240	-
Training, education and seminars	-	-	200	-
Purchased services - legal	-	-	9,180	-
Purchased services - accounting	-	-	4,039	-
Purchased services - other	-	-	3,984	-
Garbage services	-	-	55,067	-
Printing	-	-	733	-
Insurance	-	-	28,552	-
Travel	-	-	835	-
Maintenance agreements	-	-	1,777	-
Miscellaneous	-	-	321	-
Total	200,498	227,498	226,677	821

The accompanying notes are an integral part of the financial statements.

VILLAGE OF MANCHESTER
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2006

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL</u>	<u>VARIANCE WITH</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>AMOUNTS</u>	<u>FINAL BUDGET</u>
				<u>POSITIVE (NEGATIVE)</u>
Expenditures: (Continued)				
BUILDING AND GROUNDS:				
Salaries and wages	-	-	12,626	-
Payroll taxes	-	-	976	-
Employee benefits	-	-	3,190	-
Operating supplies	-	-	5,538	-
Public utilities	-	-	44,702	-
Insurance	-	-	22,806	-
Purchased services - repairs	-	-	14,691	-
Purchased services - cleaning	-	-	20,400	-
Purchased services - other	-	-	6,288	-
Allocation of equipment costs	-	-	12,949	-
Total	<u>140,650</u>	<u>144,200</u>	<u>144,166</u>	<u>34</u>
Total general government	<u>341,148</u>	<u>371,698</u>	<u>370,843</u>	<u>855</u>
PUBLIC WORKS:				
DEPARTMENT OF PUBLIC WORKS:				
Salaries and wages	-	-	13	-
Payroll taxes	-	-	10	-
Employee benefits	-	-	51	-
Operating supplies	-	-	2,395	-
Uniforms	-	-	4,624	-
Purchased services	-	-	501	-
Telephone	-	-	2,188	-
Memberships	-	-	122	-
Training, education and seminars	-	-	-	-
Miscellaneous	-	-	50	-
Total	<u>12,050</u>	<u>11,050</u>	<u>9,954</u>	<u>1,096</u>
TREE REMOVAL AND REPLACEMENT:				
Salaries and wages	-	-	330	-
Payroll taxes	-	-	36	-
Employee benefits	-	-	89	-
Purchased services	-	-	8,751	-
Allocation of equipment costs	-	-	44	-
Total	<u>12,700</u>	<u>12,700</u>	<u>9,250</u>	<u>3,450</u>

The accompanying notes are an integral part of the financial statements.

VILLAGE OF MANCHESTER
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2006

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL</u>	<u>VARIANCE WITH</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>AMOUNTS</u>	<u>FINAL BUDGET</u>
				<u>POSITIVE (NEGATIVE)</u>
Expenditures: (Continued)				
SIDEWALK CONSTRUCTION:				
Salaries and wages	-	-	869	-
Payroll taxes	-	-	66	-
Employee benefits	-	-	262	-
Operating supplies	-	-	912	-
Purchased services	-	-	289	-
Allocation of equipment costs	-	-	601	-
Total	<u>16,602</u>	<u>4,252</u>	<u>2,999</u>	<u>1,253</u>
LIGHTING:				
Street lighting	<u>44,050</u>	<u>35,050</u>	<u>34,698</u>	<u>352</u>
RECYCLING:				
Salaries and wages	-	-	11,993	-
Payroll taxes	-	-	922	-
Employee benefits	-	-	3,382	-
Operating supplies	-	-	196	-
Purchased services	-	-	2,288	-
Printing	-	-	67	-
Allocation of equipment costs	-	-	16,464	-
Total	<u>40,350</u>	<u>40,350</u>	<u>35,312</u>	<u>5,038</u>
Total public works	<u>125,752</u>	<u>103,402</u>	<u>92,213</u>	<u>11,189</u>
PUBLIC SAFETY:				
POLICE ADMINISTRATION:				
Purchased services - Police	-	-	365,025	-
Purchased services - Legal	-	-	3,863	-
Total	<u>395,050</u>	<u>372,000</u>	<u>368,888</u>	<u>3,112</u>
PLANNING COMMISSION:				
Salaries and wages	-	-	3,626	-
Payroll taxes	-	-	289	-
Employee benefits	-	-	94	-
Operating supplies	-	-	214	-
Purchased services	-	-	5,947	-
Downtown Development Authority	-	-	8,897	-
Printing	-	-	501	-
Training, education and seminars	-	-	463	-
Memberships	-	-	600	-
Total	<u>12,600</u>	<u>19,600</u>	<u>20,631</u>	<u>(1,031)</u>
Total public safety	<u>407,650</u>	<u>391,600</u>	<u>389,519</u>	<u>2,081</u>

The accompanying notes are an integral part of the financial statements.

VILLAGE OF MANCHESTER
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2006

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL</u>	<u>VARIANCE WITH</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>AMOUNTS</u>	<u>FINAL BUDGET</u>
				<u>POSITIVE (NEGATIVE)</u>
Expenditures: (Continued)				
DEBT SERVICE:				
MUNICIPAL BOND EXPENDITURES:				
Bond principal payments	-	-	50,000	-
Interest	-	-	59,942	-
Purchased services	-	-	500	-
Total debt service	<u>110,900</u>	<u>110,900</u>	<u>110,442</u>	<u>458</u>
 CAPITAL OUTLAY:				
Village council	-	-	25,202	-
Sidewalk construction	-	-	20,348	-
Total capital outlay	<u>45,550</u>	<u>45,550</u>	<u>45,550</u>	<u>-</u>
 Total expenditures	<u>1,125,980</u>	<u>1,118,130</u>	<u>1,102,019</u>	<u>16,111</u>
 Net change in fund balances	(22,280)	10,470	34,697	24,227
 Fund balance, beginning of year	<u>940,071</u>	<u>940,071</u>	<u>940,071</u>	<u>-</u>
 Fund balance, end of year	<u>\$ 917,791</u>	<u>\$ 950,541</u>	<u>\$ 974,768</u>	<u>\$ 24,227</u>

The accompanying notes are an integral part of the financial statements.

VILLAGE OF MANCHESTER
BUDGETARY COMPARISON SCHEDULE
MAJOR STREET FUND
YEAR ENDED JUNE 30, 2006

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL</u>	<u>VARIANCE WITH</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>AMOUNTS</u>	<u>FINAL BUDGET</u>
				<u>POSITIVE (NEGATIVE)</u>
Revenues:				
Motor Vehicle Highway Fund payments	\$ 114,000	\$ 105,000	\$ 108,584	\$ 3,584
Reimbursements	500	500	2,836	2,336
Interest income	-	-	7,589	7,589
Construction contributions	-	20,753	20,753	-
Total revenues	<u>114,500</u>	<u>126,253</u>	<u>139,762</u>	<u>13,509</u>
Expenditures:				
GENERAL GOVERNMENT:				
ADMINISTRATION:				
Salaries and wages	-	-	8,298	-
Payroll taxes	-	-	633	-
Employee benefits	-	-	3,008	-
Maintenance agreements	-	-	494	-
Insurance	-	-	3,902	-
Purchased services	-	-	570	-
Total General Government	<u>17,225</u>	<u>17,225</u>	<u>16,905</u>	<u>320</u>
PUBLIC WORKS:				
STREET CONSTRUCTION:				
Allocation of equipment costs	-	-	101	-
Construction projects	-	-	68,878	-
Total	<u>100,000</u>	<u>70,753</u>	<u>68,979</u>	<u>1,774</u>
STREET MAINTENANCE:				
Salaries and wages	-	-	21,370	-
Payroll taxes	-	-	1,622	-
Employee benefits	-	-	7,317	-
Operating supplies	-	-	508	-
Allocation of equipment costs	-	-	17,105	-
Repairs and maintenance	-	-	750	-
Total	<u>49,150</u>	<u>49,150</u>	<u>48,672</u>	<u>478</u>
BRIDGE MAINTENANCE:				
Salaries and wages	-	-	443	-
Payroll taxes	-	-	34	-
Employee benefits	-	-	158	-
Allocation of equipment costs	-	-	225	-
Construction projects	-	-	5,040	-
Total	<u>-</u>	<u>5,000</u>	<u>5,900</u>	<u>(900)</u>

The accompanying notes are an integral part of the financial statements.

VILLAGE OF MANCHESTER
BUDGETARY COMPARISON SCHEDULE
MAJOR STREET FUND
YEAR ENDED JUNE 30, 2006

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL</u>	<u>VARIANCE WITH</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>AMOUNTS</u>	<u>FINAL BUDGET</u>
				<u>POSITIVE (NEGATIVE)</u>
Expenditures: (Continued)				
PUBLIC WORKS: (CONTINUED)				
WINTER MAINTENANCE:				
Salaries and wages	-	-	3,291	-
Payroll taxes	-	-	250	-
Employee benefits	-	-	916	-
Operating supplies	-	-	6,426	-
Purchased services	-	-	640	-
Allocation of equipment costs	-	-	4,289	-
Total	<u>22,000</u>	<u>18,850</u>	<u>15,812</u>	<u>3,038</u>
TRAFFIC SERVICES:				
Salaries and wages	-	-	1,839	-
Payroll taxes	-	-	116	-
Employee benefits	-	-	473	-
Operating supplies	-	-	3,412	-
Purchased services	-	-	1,385	-
Allocation of equipment costs	-	-	1,568	-
Total	<u>9,000</u>	<u>9,000</u>	<u>8,793</u>	<u>207</u>
Total public works	<u>180,150</u>	<u>152,753</u>	<u>148,156</u>	<u>4,597</u>
Total expenditures	<u>197,375</u>	<u>169,978</u>	<u>165,061</u>	<u>4,917</u>
Excess of revenues over expenditures before other financing sources (uses)	(82,875)	(43,725)	(25,299)	18,426
OTHER FINANCING SOURCES (USES) -				
Operating transfers in	<u>82,875</u>	<u>45,000</u>	<u>130,000</u>	<u>85,000</u>
NET CHANGE IN FUND BALANCE	-	1,275	104,701	103,426
FUND BALANCE, BEGINNING OF YEAR	<u>118,705</u>	<u>118,705</u>	<u>118,705</u>	-
FUND BALANCE, END OF YEAR	<u>\$ 118,705</u>	<u>\$ 119,980</u>	<u>\$ 223,406</u>	<u>\$ 103,426</u>

The accompanying notes are an integral part of the financial statements.

VILLAGE OF MANCHESTER
BUDGETARY COMPARISON SCHEDULE
LOCAL STREET FUND
YEAR ENDED JUNE 30, 2006

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL</u>	<u>VARIANCE WITH</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>AMOUNTS</u>	<u>FINAL BUDGET</u>
				<u>POSITIVE (NEGATIVE)</u>
Revenues:				
Motor vehicle highway fund payments	\$ 44,800	\$ 41,000	\$ 42,786	\$ 1,786
Expenditures:				
GENERAL GOVERNMENT:				
ADMINISTRATION:				
Salaries and wages	-	-	8,298	-
Payroll taxes	-	-	633	-
Employee benefits	-	-	3,008	-
Purchased services	-	-	349	-
Insurance	-	-	7,022	-
Maintenance agreements	-	-	494	-
Total General Government	20,625	20,625	19,804	821
PUBLIC WORKS:				
STREET CONSTRUCTION:				
Salaries and wages	-	-	88	-
Payroll taxes	-	-	7	-
Employee benefits	-	-	35	-
Total	20,000	-	130	(130)
STREET MAINTENANCE:				
Salaries and wages	-	-	22,144	-
Payroll taxes	-	-	1,733	-
Employee benefits	-	-	7,800	-
Operating supplies	-	-	383	-
Purchased services	-	-	6,640	-
Repairs and maintenance	-	-	1,162	-
Allocation of equipment costs	-	-	18,997	-
Total	52,650	56,650	58,859	(2,209)
WINTER MAINTENANCE:				
Salaries and wages	-	-	2,017	-
Payroll taxes	-	-	153	-
Employee benefits	-	-	626	-
Operating supplies	-	-	6,426	-
Allocation of equipment costs	-	-	2,852	-
Total	17,350	13,150	12,074	1,076

The accompanying notes are an integral part of the financial statements.

VILLAGE OF MANCHESTER
BUDGETARY COMPARISON SCHEDULE
LOCAL STREET FUND
YEAR ENDED JUNE 30, 2006

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL</u>	<u>VARIANCE WITH</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>AMOUNTS</u>	<u>FINAL BUDGET</u>
				<u>POSITIVE (NEGATIVE)</u>
Expenditures: (Continued)				
PUBLIC WORKS: (CONTINUED)				
BRIDGE MAINTENANCE:				
Salaries and wages	-	-	70	-
Payroll taxes	-	-	5	-
Employee benefits	-	-	31	-
Purchased services	-	-	4,000	-
Allocation of equipment costs	-	-	70	-
Total	-	-	4,176	(4,176)
TRAFFIC SERVICES:				
Salaries and wages	-	-	2,420	-
Payroll taxes	-	-	94	-
Employee benefits	-	-	352	-
Operating supplies	-	-	2,396	-
Purchased services	-	-	541	-
Allocation of equipment costs	-	-	2,066	-
Total	6,800	6,800	7,869	(1,069)
Total public works	96,800	76,600	83,108	(6,508)
Total expenditures	117,425	97,225	102,912	(5,687)
Excess of revenues over expenditures before other financing sources (uses)	(72,625)	(56,225)	(60,126)	(3,901)
OTHER FINANCING SOURCES (USES) -				
Operating transfers in	72,625	57,000	30,000	(27,000)
NET CHANGE IN FUND BALANCE	-	775	(30,126)	(30,901)
FUND BALANCE, BEGINNING OF YEAR	77,143	77,143	77,143	-
FUND BALANCE, END OF YEAR	<u>\$ 77,143</u>	<u>\$ 77,918</u>	<u>\$ 47,017</u>	<u>\$ (30,901)</u>

The accompanying notes are an integral part of the financial statements.

VILLAGE OF MANCHESTER
ADDITIONAL INFORMATION
FOR THE YEAR ENDED JUNE 30, 2006

VILLAGE OF MANCHESTER
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2006

	SPECIAL REVENUE FUNDS			
	MUNICIPAL STREET	PARKS AND RECREATION	PUBLIC IMPROVE- MENT	TOTAL
ASSETS				
Cash and cash equivalents	\$ 220,981	\$ 56,181	\$ 319,570	\$ 596,732
Prepaid expenses	-	2,841	-	2,841
Due from other funds	6,416	2,706	-	9,122
Total assets	\$ 227,397	\$ 61,728	\$ 319,570	\$ 608,695
LIABILITIES AND FUND BALANCE				
Liabilities:				
Accounts payable	\$ -	\$ 5,566	\$ -	\$ 5,566
Accrued payroll	-	390	-	390
Due to other funds	-	728	-	728
Total liabilities	-	6,684	-	6,684
Fund Balance:				
Reserved for parks equipment	-	13,310	-	13,310
Unreserved	227,397	41,734	319,570	588,701
Total fund balance	227,397	55,044	319,570	602,011
Total liabilities and fund balance	\$ 227,397	\$ 61,728	\$ 319,570	\$ 608,695

The accompanying notes are an integral part of the financial statements.

VILLAGE OF MANCHESTER
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
NON-MAJOR GOVERNMENT FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	SPECIAL REVENUE FUNDS			
	MUNICIPAL STREET	PARKS AND RECREATION	PUBLIC IMPROVE- MENT	TOTAL
REVENUES:				
Taxes and penalties	\$ 120,923	\$ 49,433	\$ -	\$ 170,356
Interest income	12,677	1,626	12,133	26,436
Other revenue	-	14,994	-	14,994
Total revenues	<u>133,600</u>	<u>66,053</u>	<u>12,133</u>	<u>211,786</u>
EXPENDITURES:				
Recreational & cultural	-	36,106	-	36,106
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>133,600</u>	<u>29,947</u>	<u>12,133</u>	<u>175,680</u>
OTHER FINANCING SOURCES (USES):				
Operating transfers in	-	-	-	-
Operating transfers (out)	(160,000)	-	-	(160,000)
Total other financing sources (uses)	<u>(160,000)</u>	<u>-</u>	<u>-</u>	<u>(160,000)</u>
NET CHANGE IN FUND BALANCES	(26,400)	29,947	12,133	15,680
FUND BALANCE - Beginning of year	<u>253,797</u>	<u>25,097</u>	<u>307,437</u>	<u>586,331</u>
FUND BALANCE - End of year	<u>\$ 227,397</u>	<u>\$ 55,044</u>	<u>\$ 319,570</u>	<u>\$ 602,011</u>

The accompanying notes are an integral part of the financial statements.

VILLAGE OF MANCHESTER
SCHEDULE OF INDEBTEDNESS
FOR THE YEAR ENDED JUNE 30, 2006

VILLAGE OF MANCHESTER
SCHEDULE OF INDEBTEDNESS
JUNE 30, 2006

BUSINESS TYPE ACTIVITIES	DATE OF ISSUE	AMOUNT OF ISSUE	INTEREST RATE	DATE OF MATURITY	AMOUNT OF ANNUAL MATURITY	AMOUNT OUTSTANDING		IF HELD TO MATURITY
						06/30/06	06/30/07	
BUSINESS TYPE ACTIVITIES								
LIMITED TAX GENERAL OBLIGATION BONDS:								
Series - B Refunding Bonds, Series 1993	08/30/93	\$ 765,000	5.65%	03/01/07	\$ 45,000	\$ 45,000	\$ -	\$ 26,055
			5.75%	03/01/08	45,000	45,000	45,000	23,512
			5.85%	03/01/09	50,000	50,000	50,000	20,925
			5.95%	3/1/10 thru 11	50,000	100,000	100,000	33,025
			6.00%	3/1/12 thru 13	50,000	100,000	100,000	21,100
			6.05%	3/1/14 thru 15	50,000	100,000	100,000	9,076
Total Limited Tax General Obligation Bonds					\$ 440,000	\$ 395,000	\$	\$ 133,693
UNLIMITED TAX GENERAL OBLIGATION BONDS -								
Series - A Refunding Bonds	08/30/93	\$ 1,750,000	5.60%	03/01/07	\$ 95,000	\$ 95,000	\$ -	\$ 52,283
			5.70%	03/01/08	50,000	50,000	50,000	46,962
			5.80%	03/01/09	50,000	50,000	50,000	44,113
			5.90%	03/01/10	50,000	50,000	50,000	41,212
			5.90%	03/01/11	55,000	55,000	55,000	38,263
			5.95%	3/1/12 thru 13	55,000	110,000	110,000	66,762
			6.00%	3/1/14 thru 15	50,000	100,000	100,000	53,954
			6.05%	3/1/16 thru 18	50,000	150,000	150,000	58,342
			6.10%	3/1/19 thru 22	45,000	180,000	180,000	37,187
			6.10%	03/01/23	40,000	40,000	40,000	2,440
Total Unlimited Tax General Obligation Bonds					\$ 880,000	\$ 785,000	\$	\$ 441,518
MICHIGAN MUNICIPAL BOND AUTHORITY:								
Michigan Drinking Water Revolving Fund	09/29/98	\$ 620,000	2.50%	04/01/07	\$ 30,000	\$ 30,000	\$ -	\$ 11,000
			2.50%	04/01/08	30,000	30,000	30,000	10,250
			2.50%	04/01/09	30,000	30,000	30,000	9,500
			2.50%	04/01/10	30,000	30,000	30,000	8,750
			2.50%	04/01/11	30,000	30,000	30,000	8,000
			2.50%	04/01/12	35,000	35,000	35,000	7,250
			2.50%	04/01/13	35,000	35,000	35,000	6,375
			2.50%	04/01/14	35,000	35,000	35,000	5,500
			2.50%	04/01/15	35,000	35,000	35,000	4,625
			2.50%	04/01/16	35,000	35,000	35,000	3,750
			2.50%	04/01/17	35,000	35,000	35,000	2,875
			2.50%	04/01/18	40,000	40,000	40,000	2,000
			2.50%	04/01/19	40,000	40,000	40,000	1,000
Total Michigan Drinking Water Revolving Fund Program					\$ 440,000	\$ 410,000	\$	\$ 80,875
Subtotal					\$ 1,760,000	\$ 1,590,000	\$	\$ 656,086

VILLAGE OF MANCHESTER
SCHEDULE OF INDEBTEDNESS
JUNE 30, 2006

	DATE OF ISSUE	AMOUNT OF ISSUE	INTEREST RATE	DATE OF MATURITY	AMOUNT OF ANNUAL MATURITY	AMOUNT OUTSTANDING		IF HELD TO MATURITY
						06/30/06	06/30/07	
						\$ 1,760,000	\$ 1,590,000	\$ 656,086
Subtotal - Previous Page								
General Obligation Bonds:								
Series 1991								
	03/28/91	\$ 955,000	2.00%	10/01/06	\$ 50,000	\$ 50,000	\$ -	\$ 5,986
			2.00%	10/01/07	50,000	50,000	50,000	4,986
			2.00%	10/01/08	55,000	55,000	55,000	3,936
			2.00%	10/01/09	55,000	55,000	55,000	2,836
			2.00%	10/01/10	55,000	55,000	55,000	1,736
			2.00%	10/01/11	59,282	59,282	59,282	593
Total General Obligation Bonds						<u>\$ 324,282</u>	<u>\$ 274,282</u>	<u>\$ 20,073</u>
Special Assessment Bonds:								
Series 2004								
	03/15/04	\$ 490,000	2.00%	10/01/06	\$ 70,000	\$ 70,000	\$ -	\$ 7,675
			2.00%	10/01/07	75,000	75,000	75,000	6,225
			2.10%	10/01/08	75,000	75,000	75,000	4,688
			2.50%	10/01/09	75,000	75,000	75,000	2,963
			2.70%	10/01/10	75,000	75,000	75,000	1,011
Total Special Assessment Bonds						<u>\$ 370,000</u>	<u>\$ 300,000</u>	<u>\$ 22,562</u>
Total Water and Sewer Enterprise Funds								
						<u>\$ 2,454,282</u>	<u>\$ 2,164,282</u>	<u>\$ 698,721</u>
General Obligation Bonds:								
Series 2000								
	06/29/00	\$ 1,250,000	5.50%	05/01/07	50,000	50,000	-	57,650
			5.50%	05/01/08	50,000	50,000	50,000	54,900
			5.50%	05/01/09	55,000	55,000	55,000	52,150
			5.50%	05/01/10	60,000	60,000	60,000	49,125
			5.50%	05/01/11	60,000	60,000	60,000	45,825
			5.50%	05/01/12	65,000	65,000	65,000	42,525
			5.50%	05/01/13	70,000	70,000	70,000	38,950
			5.50%	05/01/14	75,000	75,000	75,000	35,100
			5.50%	05/01/15	80,000	80,000	80,000	30,975
			5.55%	05/01/16	85,000	85,000	85,000	26,375
			5.60%	05/01/17	90,000	90,000	90,000	21,858
			5.65%	05/01/18	95,000	95,000	95,000	16,817
			5.70%	05/01/19	100,000	100,000	100,000	11,450
			5.75%	05/01/20	100,000	100,000	100,000	5,750
Total General Government Activity						<u>\$ 1,035,000</u>	<u>\$ 985,000</u>	<u>\$ 489,650</u>

MARKOWSKI & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

2880 SPRING ARBOR ROAD

JACKSON, MICHIGAN 49203

PHONE (517) 782-9351

FAX (517) 782-0599

K. LAVERNE MARKOWSKI, C.P.A.
RONALD L. MARKOWSKI, C.P.A.
DOUGLAS E. ATKINS, C.P.A.

MEMBERS:
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
MICHIGAN ASSOCIATION OF
CERTIFIED PUBLIC ACCOUNTANTS
ESTATE PLANNING COUNCIL
OF SOUTH CENTRAL MICHIGAN

December 15, 2006
Village Council
Village of Manchester

We have audited the financial statements of Village of Manchester for the year ended June 30, 2006, and have issued our report thereon dated December 15, 2006. Professional standards require that we provided you with the following information related to our audit.

Our responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated October 9, 2006, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the basic financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.

As part of our audit, we considered the internal control of Village of Manchester. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Village of Manchester are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ended June 30, 2006. We noted no transactions entered into by Village of Manchester during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Village of Manchester's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Village of Manchester, either individually or in the aggregate, indicate matters that could have a significant effect on the Village of Manchester's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Village of Manchester's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

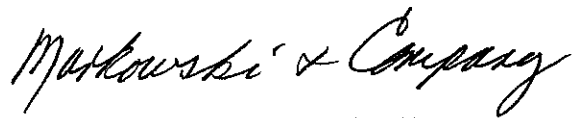
Village Council
Village of Manchester
Page Three

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the Village Council and management of Village of Manchester and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in cursive script that reads "Markowski & Company". The signature is written in dark ink and is positioned above the printed name of the firm.

MARKOWSKI & COMPANY, CPAs

VILLAGE OF MANCHESTER
MEMORANDUM OF COMMENTS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2006

Budgeting Procedures

As discussed in Note 2, the Village spent amounts in excess of the approved budget during the year ended June 30, 2006. This is a violation of Public Act 621 of 1978. The Village should prepare budget amendments as necessary to avoid this situation in the future. Please note the excess amounts were minor and insignificant to the overall financial statements.

Segregation of Duties

Because of the limited size of the Village of Manchester's accounting staff, proper segregation of duties cannot be accomplished. This is an inherent weakness in the internal controls of the Village. Village management needs to continue to exercise appropriate management oversight to help compensate for the lack of staff. The only corrective action would be to hire additional staff, which is not practical.